APPENDIX

REVENUE ACT OF 1918

Sec. 234. (a) That in computing the net income of a corporation subject to the tax imposed by section 230 there shall be allowed as deductions:

* * * * * *

(13) In the case of mutual insurance companies (other than mutual life or mutual marine insurance companies) requiring their members to make premium deposits to provide for losses and expenses, there shall be allowed, in addition to the deductions allowed in paragraphs (1) to (10), inclusive, (unless otherwise allowed under such paragraphs) the amount of premium deposits returned to their policyholders and the amount of premium deposits retained for the payment of losses, expenses, and reinsurance reserves;

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REVENUE ACT OF 1921

Sec. 234. (a) That in computing the net income of a corporation subject to the tax imposed by section 230 there shall be allowed as deductions:

* * * * * *

(13) In the case of mutual insurance companies (including interinsurers and reciprocal underwriters, but not including mutual life or mutual marine insurance companies) requiring their members to make premium deposits to provide for losses and expenses, there shall be allowed, in addition to the deductions allowed in paragraphs (1) to

(10), inclusive, and paragraph (14), unless otherwise allowed, the amount of premium deposits returned to their policyholders and the amount of premium deposits retained for the payment of losses, expenses, and reinsurance reserves;

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REVENUE ACTS OF 1924 AND 1926

Sec. 234. (a) In computing the net income of a corporation subject to the tax imposed by section 230 there shall be allowed as deductions:

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(11) In the case of mutual insurance companies (including interinsurers and reciprocal underwriters, but not including mutual life or mutual marine insurance companies) requiring their members to make premium deposits to provide for losses and expenses, there shall be allowed, in addition to the deductions allowed in paragraphs (1) to (9), inclusive, unless otherwise allowed, the amount of premium deposits returned to their policyholders and the amount of premium deposits retained for the payment of losses, expenses, and reinsurance reserves.

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REVENUE ACTS OF 1928 AND 1932

SEC. 208. MUTUAL INSURANCE COMPANIES OTHER THAN LIFE.

(a) Application of title.—Mutual insurance companies, other than life insurance companies, shall be taxable in the same manner as other corporations, except as hereinafter provided in this section.

* * * * * *

(c) Deductions.—In addition to the deductions allowed to corporations by section 23 the following deductions to insurance companies shall also be allowed, unless otherwise allowed ——

(1) MUTUAL INSURANCE COMPANIES OTHER THAN LIFE INSURANCE.—In the case of mutual insurance companies other than life insurance companies ——

(A) the net addition required by law to be made within the taxable year to reserve funds (including in the case of assessment insurance companies the actual deposit of sums with State or Territorial officers pursuant to law as additions to guarantee or reserve funds); and

(B) the sums other than dividends paid within the taxable year on policy and annuity contracts.

* * * * * *

(3) MUTUAL INSURANCE COMPANIES OTHER THAN LIFE AND MARINE.—In the case of mutual insurance companies (including interinsurers and reciprocal underwriters, but not including mutual life or mutual marine insurance companies) requiring their members to make premium deposits to provide for losses and expenses, the amount of premium deposits returned to their policyholders and the amount of premium deposits retained for the payment of losses, expenses, and reinsurance reserves.

REVENUE ACT OF 1934

SEC. 207. MUTUAL INSURANCE COMPANIES OTHER THAN LIFE.

(a) Application of title.—Mutual insurance companies, other than life insurance companies, shall be taxable in the same manner as other corporations, except as hereinafter provided in this section.

* * * * * *

(c) Deductions.—In addition to the deductions allowed to corporations by section 23 the following deductions to insurance companies shall also be allowed, unless otherwise allowed ——

(1) MUTUAL INSURANCE COMPANIES OTHER THAN LIFE INSURANCE.—In the case of mutual insurance companies other than life insurance companies —

(A) the net addition required by law to be made within the taxable year to reserve funds (including in the case of assessment insurance companies the actual deposit of sums with State or Territorial officers pursuant to law as additions to guarantee or reserve funds); and

(B) the sums other than dividends paid within the taxable year on policy and annuity contracts.

* * * * * *

(3) MUTUAL INSURANCE COMPANIES OTHER THAN LIFE AND MARINE.—In the case of mutual insurance companies (including interinsurers and reciprocal underwriters, but not including mutual life or mutual marine insurance companies) requiring their members to make premium deposits to provide for losses and expenses, the amount of premium deposits returned to their policyholders and the amount of premium deposits retained for the payment of losses, expenses, and reinsurance reserves.

REVENUE ACT OF 1936

SEC. 207. MUTUAL INSURANCE COMPANIES OTHER THAN LIFE.

(a) Application of title.—Mutual insurance companies, other than life insurance companies, shall be taxable in the same manner as other corporations, except as hereinafter provided in this section, and except that they shall not be subject to the surtax imposed by section 14, and except that

the normal tax imposed by section 13 shall be at the rate of 15 per centum instead of at the rates provided in such section, and such normal tax shall be applicable to foreign corporations as well as domestic corporations; but foreign insurance companies not carrying on an insurance business within the United States shall be taxable as other foreign corporations.

* * * * * *

(c) **Deductions.**—In addition to the deductions allowed to corporations by section 23 the following deductions to insurance companies shall also be allowed, unless otherwise allowed ——

(1) MUTUAL INSURANCE COMPANIES OTHER THAN LIFE INSURANCE.—In the case of mutual insurance companies other than life insurance companies —

(A) the net addition required by law to be made within the taxable year to reserve funds (including in the case of assessment insurance companies the actual deposit of sums with State or Territorial officers pursuant to law as additions to guarantee or reserve funds); and

(B) the sums other than dividends paid within the taxable year on policy and annuity contracts.

* * * * * *

(3) MUTUAL INSURANCE COMPANIES OTHER THAN LIFE AND MARINE.—In the case of mutual insurance companies (including interinsurers and reciprocal underwriters, but not including mutual life or mutual marine insurance companies) requiring their members to make premium deposits to provide for losses and expenses, the amount of premium deposits returned to their policyholders and the amount of premium deposits retained for the payment of losses, expenses, and reinsurance reserves.

REVENUE ACT OF 1938
and
PRESENT INTERNAL REVENUE CODE

SEC. 207. MUTUAL INSURANCE COMPANIES OTHER THAN LIFE.

(a) Imposition of tax.

(1) IN GENERAL.—There shall be levied, collected, and paid for each taxable year upon the special class net income of every mutual insurance company(other than life insurance company) a tax equal to 16-1/2 per centum thereof.

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(c) Deductions.—In addition to the deductions allowed to corporations by section 23 the following deductions to insurance companies shall also be allowed, unless otherwise allowed—

(1) MUTUAL INSURANCE COMPANIES OTHER THAN LIFE INSURANCE.—In the case of mutual insurance companies other than life insurance companies—

(A) The net addition required by law to be made within the taxable year to reserve funds (including in the case of assessment insurance companies the actual deposit of sums with State or Territorial officers pursuant to law as additions to guarantee or reserve funds); and

(B) the sums other than dividends paid within the taxable year on policy and annuity contracts.

* * * * * *

(3) MUTUAL INSURANCE COMPANIES OTHER THAN LIFE AND MARINE.—In the case of mutual insurance companies (including interinsurers and reciprocal underwriters, but not including mutual life or mutual marine

insurance companies) requiring their members to make premium deposits to provide for losses and expenses, the amount of premium deposits returned to their policyholders and the amount of premium deposits retained for the payment of losses, expenses, and reinsurance reserves.

REGULATIONS

Regulations 45 (Act of 1918)—Art. 572
Regulations 62 (Act of 1921)—Art. 572

ART. 572. **Special deductions allowed mutual insurance companies.**—Mutual insurance companies (other than mutual life and mutual marine insurance companies), which require their members to make premium deposits to provide for losses and expenses, are allowed to deduct from gross income the aggregate amount of premium deposits returned to their policyholders or retained for the payment of losses, expenses, and reinsurance reserves. In determining the amount of premium deposits retained by a mutual fire or mutual casualty insurance company for the payment of losses, expenses, and reinsurance reserves, it will be presumed that losses and expenses have been paid out of earnings and profits other than premiums to the extent of such earnings and profits. If, however, any portion of such amount is applied during the taxable year to the payment of losses, expenses, or reinsurance reserves, for which a separate allowance is taken, then such portion is not deductible; and if any portion of such amount for which an allowance is taken is subsequently applied to the payment of expenses, losses, or reinsurance reserves, then such payment can not be separately deducted. An amount of premium deposits retained for the payment of expenses and losses, and the amount of such expenses and

losses, may not both be deducted. A company which invests part of the premium deposits so retained by it in interest-bearing securities may nevertheless deduct such part, but not the interest received on such securities. A mutual fire insurance company which has a guaranty capital is taxed like other mutual fire insurance companies. *A stock fire insurance company, operated on the mutual plan to the extent of paying dividends to certain classes of policyholders, may make a return on the same basis as a mutual fire insurance company with respect to its business conducted on the mutual plan.* (Italics ours.)

Regulations 65 (Act of 1924)—Art. 571
Regulations 69 (Act of 1926)—Art. 571
Regulations 74 (Act of 1928)—Art. 1014
Regulations 77 (Act of 1932)—Art. 1014

ART. 571 and 1014. **Special deductions allowed mutual insurance companies.**—Mutual insurance companies (including interinsurers and reciprocal underwriters, but not including mutual life and mutual marine insurance companies), which require their members to make premium deposits to provide for losses and expenses, are allowed to deduct from gross income the aggregate amount of premium deposits returned to their policyholders or retained for the payment of losses, expenses, and reinsurance reserves. In determining the amount of premium deposits retained by a mutual fire or mutual casualty insurance company for the payment of losses, expenses, and reinsurance reserves, it will be presumed that losses and expenses have been paid out of earnings and profits other than premiums to the extent of such earnings and profits. If, however, any portion of such amount is applied during the taxable year to the payment of losses, expenses, or reinsurance reserves, for which a separate allowance is

taken, then such portion is not deductible; and if any portion of such amount for which an allowance is taken is subsequently applied to the payment of expenses, losses, or reinsurance reserves, then such payment can not be separately deducted. The amount of premium deposits retained for the payment of expenses and losses, and the amount of such expenses and losses, may not both be deducted. A company which invests part of the premium deposits so retained by it in interest-bearing securities may nevertheless deduct such part, but not the interest received on such securities. A mutual fire insurance company which has a guaranty capital is taxed like other mutual fire insurance companies. *A stock fire insurance company, operated on the mutual plan to the extent of paying dividends to certain classes of policyholders, may make a return on the same basis as a mutual fire insurance company with respect to its business conducted on the mutual plan.* (Italics ours.)

Regulations 86 (Act of 1934) as originally promulgated February 11, 1934

ART. 207-1. **Classes of mutual insurance companies other than life.**—The term, "mutual insurance companies other than life insurance companies," as used in the Act and these regulations, includes the following:

Class (a), those that operate on a limited liability basis, charging a stipulated cash premium for their policy of insurance;

Class (b), those that operate on an assessment basis,

(1) requiring deposits in advance,

(2) not requiring deposits in advance;

Class (c), reciprocal insurance exchanges or associations; and

Class (d), mutual marine insurance companies.

(A) Class (a).—Companies coming within class (a) will return the amount of net premiums written within the year in addition to the items of income which are required to be returned by corporations generally under section 22.

In addition to the deductions and credits to which corporations generally are entitled as defined and limited under sections 23, 24, and 26, insurance companies of this type are entitled to deduct from gross income the special deductions mentioned in section 207 (c) (1) (A) and (B). For a general definition of "reserve funds" see article 203 (a) (2)—1. In the case of companies falling within class (a) the only reserve fund commonly recognized is the "unearned premium" fund. Dividends are not deductible. The term "dividends" as used in section 207 (c) (1) (B) includes distributions made, and commonly referred to as dividends, by mutual insurance companies other than life, and is not limited to the definition applicable to corporations generally. (See section 115 (a).)

(B) Class (b) (1) and (2).—Companies coming within class (b) (1) and (2), if not exempt under section 101 (11), will make their returns as follows:

(I) Class (b) (1).—In addition to the items of gross income which are required to be returned by corporations generally under section 22 and the regulations thereunder companies falling under class (b) (1) will return the amount of premium deposits received or receivable during the year, depending upon the basis on which the books are kept and the returns are made, plus the amount of such deposits retained for the payment of losses, expenses and reinsurance reserves at the close of the preceding taxable year.

In addition to the deductions and credits to which corporations generally are entitled as defined and limited under section 23, 24, and 26, insurance companies of this type are entitled to deduct from gross income:

(1) The amount of premium deposits returned to policyholders during the year;

(2) The amount of premium deposits retained at

the end of the taxable year for the payment of losses, expenses and reinsurance reserves. As used in this article the term "losses" means incurred losses; the term "expenses" means accrued expenses and the term "reinsurance reserves" means the amount necesssary to reinsure outstanding policies for their unexpired terms;

(3) The actual deposit of sums, if any, made out of the income of the taxable year with State or Territorial officers pursuant to law as additions to guarantee or reserve funds.

(II) Class (b) (2).—Companies coming within class (b) (2) will include in gross income, in addition to the items of gross income which are required to be returned by corporations generally under section 22, the amount of assessments received or receivable during the year depending upon the basis on which the books are kept and the returns are made.

In addition to the deductions and credits to which corporations generally are entitled as defined and limited under section 23, 24, and 26, insurance companies of this type are entitled to deduct from gross income the amount of assessments returned to policyholders during the year and the actual deposit of sums, if any, made out of the income of the taxable year with State or Territorial officers pursuant to law as additions to guarantee or reserve funds.

(C) Class (c).—Reciprocal insurance exchanges or associations operate generally on the premium deposit plan. Such companies are subject to the same requirements, are permitted the same deductions, and will make returns under the same conditions and in the same manner as assessment premium deposit companies.

(D) Class (d).—Mutual marine insurance companies will include in gross income the amount of gross premiums collected and received by them less amounts paid for reinsurance in addition to the items of gross income required to be returned by corporations generally under section 22.

In addition to deductions and credits to which corporations generally are entitled as defined and limited under section 23, 24, and 26, and to which mutual insurance companies other than life are entitled under section 207 (c) (1) insurance companies of this type are entitled to deduct from gross income amounts repaid to policyholders and interest thereon as provided in section 207 (c) (2).

(E) General.—If the business of a mutual insurance company other than life, partakes of the character of more than one of the classes hereinabove described its aggregate income from all classes shall be determined by computing the income received from each class separately according to the method applicable to that class.

A copy of the report made to the insurance department of the State, Territory, or District of Columbia which shows the reserves used in computing the net income reported on the return shall be filed therewith. The return shall be on Form 1030.

As to the limitation on deductions generally, see section 24 (a) (5).

Mutual insurance companies other than life not coming within the specific provisions of section 207 (b) and (c) shall make their returns under the same provisions of the law and regulations and shall be taxable in the same manner as corporations generally.

Regulations 86 (Act of 1934) as amended by T.D. 4697—September 22, 1936 (XV—2 CB 167)

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ART. 207-5. **Special deductions allowed mutual insurance companies.** Mutual insurance companies (including interinsurers and reciprocal underwriters, but not including mutual life and mutual marine insurance companies), which require their members to make premium deposits to pro-

vide for losses and expenses, are allowed to deduct from gross income the aggregate amount of premium deposits returned to their policyholders or retained for the payment of losses, expenses, and reinsurance reserves. In determining the amount of premium deposits retained by a mutual fire or mutual casualty insurance company for the payment of losses, expenses, and reinsurance reserves, it will be presumed that losses and expenses have been paid out of earnings and profits other than premiums to the extent of such earnings and profits. If, however, any portion of such amount is applied during the taxable year to the payment of losses, expenses, or reinsurance reserves, for which a separate allowance is taken, then such portion is not deductible; and if any portion of such amount for which an allowance is taken is subsequently applied to the payment of expenses, losses, or reinsurance reserves, then such payment can not be separately deducted. The amount of premium deposits retained for the payment of expenses and losses, and the amount of such expenses and losses, may not both be deducted. A company which invests part of the premium deposits so retained by it in interest-bearing securities may nevertheless deduct such part, but not the interest received on such securities. A mutual fire insurance company which as a guaranty capital is taxed like other mutual fire insurance companies. *A stock fire insurance company, operated on the mutual plan to the extent of paying dividends to certain classes of policyholders may make a return on the same basis as a mutual fire insurance company with respect to its business conducted on the mutual plan.* (Italics ours.)

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NOTE:

Only one article appeared in Regulations 86 as it was originally promulgated with respect to Section 207. T.D. 4697, issued September 22, 1936 (XV—2 CB 167), which revoked Article 201-1 as it was originally promulgated, replaced that article with six separate

articles—Article 207-1 to 207-6, inclusive. Article 207-5 as it is set out above corresponds to the articles in previous regulations set out in this Appendix.

Regulations 94 (Act of 1936)—Art. 207-6
Regulations 101 (Act of 1938)—Art. 207-6
Regulations 103 (Present Internal Revenue Code)—Sec. 19.207-6

ART. 207-6. **Special deductions allowed mutual insurance companies (other than life or marine).**—Mutual insurance companies (including interinsurers and reciprocal underwriters, but not including mutual life and mutual marine insurance companies), which require their members to make premium deposits to provide for losses and expenses, are allowed to deduct from gross income the aggregate amount of premium deposits returned to their policyholders or retained for the payment of losses, expenses, and reinsurance reserves. In determining the amount of premium deposits retained by a mutual fire or mutual casualty insurance company for the payment of losses, expenses, and reinsurance reserves, it will be presumed that losses and expenses have been paid out of earnings and profits other than premiums to the extent of such earnings and profits. If, however, any portion of such amount is applied during the taxable year to the payment of losses, expenses, or reinsurance reserves, for which a separate allowance is taken, then such portion is not deductible; and if any portion of such amount for which an allowance is taken is subsequently applied to the payment of expenses, losses, or reinsurance reserves, then such payment cannot be separately deducted. The amount of premium deposits retained for the payment of expenses and losses, and the amount of such expenses and losses, may not both be deducted. A company which invests part of the premium

deposits so retained by it in interest-bearing securities may nevertheless deduct such part, but not the interest received on such securities. A mutual fire insurance company which has a guaranty capital is taxed like other mutual fire insurance companies. *A stock fire insurance company, operated on the mutual plan to the extent of paying dividends to certain classes of policyholders, may make a return on the same basis as a mutual fire insurance company with respect to its business conducted on the mutual plan.*